

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 PA-04 PRS-01 USIA-15 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01

AGR-20 SWF-02 NSC-07 SS-20 STR-08 CEA-02 IGA-02 DRC-01

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E.O. 11652: N/A

TAGS: ECON, PK

SUBJECT: COMMENTS CONCERNING GOP ECONOMIC PRESS CONFERENCE
ON STATE OF PAKISTAN'S ECONOMY

REF: (A) LAHORE 0595; (B) ISLAMABADE 3843

1. SUMMARY. ECONOMY HAS MADE SPECTACULAR RECOVERY FROM EFFECTS OF FLOOD DAMAGE BUT UNCERTAIN IF DEFICIT FINANCING WILL BE AVOIDED OR WHETHER GOP WILL ACHIEVE SELF-SUFFICIENCY IN WHEAT. EXPORTS PROBABLY WILL FALL SHORT OF OFFICIAL TARGET BUT SHOULD BE APPROXIMATELY \$150 MILLION MORE THAN FY 73. TRADE GAP WILL BE FINANCED BY APPROXIMATE \$5 MILLION NET INVISIBLES, \$269 MILLION RESERVE DRAW DOWN. PROSPECTS GOOD FOR RICE AND COTTON CROPS. END SUMMARY.

2. EMBASSY COMMENTS CONCERNING APRIL 19 PRESS CONFERENCE REPORTED REF A HELD BY FEROZE QAISAR, GOP PRESIDENTIAL SPECIAL ASSISTANT FOR ECONOMIC AFFAIRS, MALIK KHUDA BUKSH BUCH, GOP PRESIDENTIAL SPECIAL ASSISTANT TO AGRICULTURAL AFFAIRS, AND GOP SEC GEN FINANCE SECTION A.G.N,
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KAZI FOLLOWS:

3. ASSERTION THAT NATIONAL ECONOMY HAS MADE "SPECTACULAR RECOVER" DURING THE PAST YEAR IS TRUE IN CONTEXT THAT ECONOMY HAS BASICALLY RECOVERED FROM EFFECTS OF FLOODS OF LAST AUGUST-SEPTEMBER. HOWEVER, ASSERTION THAT THIS "SPECTACULAR RECOVERY" WILL ENABLE GOP TO AVOID DEFICIT FINANCING, HOLD PRICES, AND ACHIEVE SELF-SUFFICIENCY IN WHEAT PRODUCTION IS PROBLEMATIC. HIGH VOLUME OF EXPORTS WITH CORRESPONDING HIGH EXPORT TAX RECEIPTS INCREASES GOVERNMENT REVENUES BUT INFORMATION NOT AVAILABLE AS TO WHETHER OR NOT INCREASED REVENUES WILL BE SUFFICIENT TO FINANCE GOP SPENDING, PARTICULARLY IN VIEW OF GOP EXPENDITURES CAUSED BY FLOODS. GOP IS MAINTAINING PRICES OF CERTAIN KEY ITEMS, SUCH AS WHEAT FLOUR AND VEGETABLE OIL, BUT OVERALL COST OF LIVING INCREASE OFFICIALLY ESTIMATED AT 22 PERCENT IN FY73, WILL LIKELY BE AT LEAST AS HIGH IN FY 74. EXPECTED RECORD WHEAT CROP NOW BEING HARVESTED, OFFICIALLY ESTIMATED AT 8.5 MILLION METRIC TONS, SHOULD BE SUFFICIENT TO SATISFY TOTAL CONSUMPTION AND THUS "ACHIEVE SELF-SUFFICIENCY IN WHEAT PRODUCTION." HOWEVER, IF GOP IS NOT ABLE TO OBTAIN 2.2 MILLION METRIC TON ESTIMATED REQUIREMENT FOR RATION SHOPS AT CURRENT PROCUREMENT PRICE, IT PROBABLY WILL GO INTO THE INTERNATIONAL MARKET TO MAKE UP SOME IF NOT ALL THE SHORTFALL IN ITS DOMESTIC PROCUREMENT TARGET.

4. EXPORTS. OFFICIAL EXPORT TARGET WAS \$1.1 BILLION (APPROXIMATELY RS. 11 BILLION) RATHER THAN RS. 10 BILLION AS REPORTED REF A. INDICATIONS ARE THAT OFFICIAL TARGET WILL PROBABLY NOT BE MET THOUGH EXPORTS SHOULD EXCEED MINIMUM OF RS. 9 BILLION MENTIONED REF A. STATE BANK OF PAKISTAN OFFICIAL STATISTICS OF EXPORT EARNINGS FOR FIRST EIGHT MONTHS OF FY 74 PRORATED FOR REMAINDER OF YEAR INDICATE THAT FY 74 EXPORTS WILL TOTAL APPROXIMATELY \$1.05 BILLION. GOP PLANNING DIVISION ESTIMATES THAT FY 74 GOP COTTON EXPORTS WILL BE \$57 MILLION AS COMPARED WITH \$135 MILLION IN FY 73 BUT COTTON YARN WILL INCREASE FROM \$173 MILLION TO \$200 MILLION, COTTON CLOTH FROM \$105 MILLION TO \$150 MILLION AND RICE FROM \$95 MILLION TO \$218 MILLION.

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5. BALANCE OF PAYMENTS. STATE BANK OF PAKISTAN OFFICIAL STATISTICS PRORATED FOR REMAINDER FY 74 INDICATE IMPORTS WILL BE \$1,450 MILLION, NET INVISIBLES WILL BE PLUS \$5 MILLION, DEBT REPAYMENT \$197 MILLION, FOREIGN AID UTILIZATION \$466 MILLION, FOR NET DECREASE IN RESERVES OF \$126 MILLION.

6. FERTILIZER. DESPITE STATEMENT THAT GOP HAD DECIDED

TO MAINTAIN PRESENT FERTILIZER PRICES, GOP INCREASED ALL FERTILIZER PRICES FOLLOWING DAY AS REPORTED REF B.

7. WHEAT. STATEMENT THAT GOP HAS DECIDED TO MAINTAIN PRESENT PROCUREMENT PRICE OF RS. 25.5/MAUND (1 MAUND - 82 POUNDS) IS APPARENTLY TRUE, AT LEAST FOR CURRENT CROP OF WHICH HARVEST HAS JUST BEGUN. IF GOP ACHIEVES PROCUREMENT GOAL OF 2.2 MILLION METRIC TONS FOR RATION SHOP REQUIREMENTS TEN SIGNIFICANT IMPORTS WILL NOT BE NECESSARY BUT ANY SHORTFALL IN PROCUREMENT TARGET WILL REQUIRE APPROXIMATE EQUIVALENT IMPORTS. CRUCIAL QUESTION IS WHETHER CURRENT FREE MARKET WHEAT PRICE, PRESENTLY 3-4 RUPEES ABOVE PROCUREMENT PRICE, WILL FALL TO PARITY WITH PROCUREMENT PRICES. GOP IS APPARENTLY RELYING UPON ANTICIPATED RECORD CROP AND REDOUBLED EFFORTS TO SEAL BORDERS TO PREVENT SMUGGLING TO NEIGHBORING COUNTRIES.

8. SUGAR. IT IS DIFFICULT TO ASSESS GOP STATEMENT THAT IT WILL ACHIEVE SELF-SUFFICIENCY IN REFINED SUGAR AS CANE IS USED TO PRODUCE GHUR (CRUDE UNREFINED SUGAR MOSTLY CONSUMED IN RURAL AREAS) AND REFINED SUGAR CONSUMED IN URBAN AREAS. PRICE AND PRODUCTION OF REFINED SUGAR HIGHLY CONTROLLED WHEREAS GHUR MOSTLY UNREGULATED. THUS DECISION TO CONVERT CANE TO GHUR OR REDPCOWNVGAR DEPENDS UPON PRICE DIFFERENTIAL BETWEEN THE TWO, WHICH IS DIFFICULT TO PREDICT. SOME CANE LOSSES WERE SUSTAINED DUE TO UNUSUALLY LOW TEMPERATURES THIS WINTER.

9. COTTON. ESTIMATED 3.7 BALES FOR CURRENT COTTON CROP PROBABLY CORRECT. PROSPECTS ARE GOOD FOR CROP DUE TO BE PLANTED MAY AND JUNE BECAUSE OF AMPLE INPUT SUPPLIES INCLUDING WATER AND FERTILIZER. CROP COULD SIGNIFICANTLY EXCEED FOUR MILLION BALES BUT UNLIKELY TO EXCEED FIVE LIMITED OFFICIAL USE

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MILLION BALES.

10. RICE. ESTIMATED 2.4 MILLION METRIC TON CURRENT RICE CROP PROBABLY CORRECT. RECENT INCREASE IN RICE PROCUREMENT PRICES (REF B) SHOULD ENCOURAGE INCREASED PRODUCTION FOR FY 75 CROP WHICH LIKELY RANGE FROM 2.5 - 2.7 MILLION METRIC TONS.

11. PRICE INCREASES. IT IS IMPOSSIBLE TO PROVE OR DIS-PROVE FEROZE QAISAR'S STATEMENT THAT HE BELIEVED PRICES HAD DECLINED APPRSPAIABLY DURING LAST THREE MONTHS AS NO OVERALL STATISTICS ARE AVAILABLE FOR THIS PERIOD. IT IS KNOWN THAT PRICES OF CERTAIN ITEMS SUCH AS ONIONS, COTTON CLOTH AND BEANS HAVE DECLINED IN THIS PERIOD, BUT THESE DECLINES MAY HAVE BEEN MORE THAN OFFSET BY INCREASES IN OTHER ITEMS.

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